

## Message Text

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ACTION ABF-01

INFO OCT-01 NEA-10 ISO-00 FS-01 FRB-03 SEC-01 /017 W  
-----032384 221242Z /45

R 220750Z JUL 77  
FM AMEMBASSY NEW DELHI  
TO SECSTATE WASHDC 4883  
USTREASURY WASHDC

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E.O. 11652: N/A  
TAGS: EFIN, IN  
SUBJECT: INTEREST ON USDO 180 DAY TIME DEPOSITS

REF: STATE 164030

1. IN RESPONSE TO REFTTEL WE ARE SUPPLYING THE FOLLOWING  
ANSWERS:

(A) EMBASSY EXTENDED MATURITY ON RS. 71.7 MILLION TIME  
DEPOSIT WITH CITIBANK. THE ACCOUNT, NOW TOTALLING RS. 73.6  
MILLION DUE TO ADDITION OF ACCRUED INTEREST, WAS ROLLED OVER  
ON JUNE 28 AT A RATE OF 4 PERCENT BUT WAS THEN MOVED TO ONE  
YEAR AS OF JULY 1 AT A RATE OF 6 PERCENT AT OUR REQUEST.  
WHILE CITIBANK DID NOT EXPRESS ANY DISPLEASURE WITH OUR MOVE,  
WE HAD REQUESTED THAT AS A MEASURE TO INCREASE EFFICIENCY,  
ALL FOUR 180 DAY TIME DEPOSITS BE COMBINED. HOWEVER, CITI-  
BANK HAS TOLD US THAT THEY WILL CONTINUE TO ROLL OVER OUR  
FOUR ACCOUNTS SEPARATELY ON THE DATES OF MATURITY. WE PLAN  
TO HOLD FURTHER DISCUSSIONS WITH CITIBANK ON THE POSSIBILITY  
OF COMBINING THE ACCOUNTS. BANK OF AMERICA HAS BEEN MOST  
COOPERATIVE. THEY HAVE AGREED TO CONVERT OUR 180 DAY CALL  
ACCOUNT AT 5.5 PERCENT TO A ONE YEAR CALL ACCOUNT AT 6 PER-  
CENT AS OF JULY 1. THE INTEREST ACCRUED FROM JUNE 4 THROUGH  
JUNE 30 AT 5.5 PERCENT HAS BEEN ADDED TO THE PRINCIPLE.

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AMERICAN EXPRESS, IN SPITE OF THEIR REPRESENTATION TO TREAS-  
URY, HAS AGREED TO ROLL OVER THEIR ACCOUNT INTO A ONE YEAR  
CALL ACCOUNT AS OF JULY 1.

(B) THE FOLLOWING TABLE SHOWS THE PERCENTAGE OF USG DEPOSITS  
AS A PERCENTAGE OF TOTAL DEPOSITS OF THE AMERICAN BANKS:

## USDO DEPOSITS WITH AMERICAN BANKS

AS OF 12/31/76

RS. MILLION

| BANK             | TOTAL DEPOSITS | USDO DEPOSITS | PERCENT OF |
|------------------|----------------|---------------|------------|
| (1)              | (2)            | (3)           | COL.3 OVER |
|                  |                | COL. 2 (4)    |            |
| AMERICAN EXPRESS | 773            | 259.6         | 35.4       |
|                  | (258.4) A/     | (35.2)        |            |
|                  | (1.2) B/       | (0.2)         |            |
| BANK OF AMERICA  | 644            | 261.0         | 40.5       |
|                  | (259.8) A/     | (40.3)        |            |
|                  | (1.2) B/       | (0.2)         |            |
| CITIBANK         | 833            | 329.0         | 39.5       |
|                  | (282.4) A/     | (33.9)        |            |
|                  | (46.6) C/      | (5.6)         |            |

A/ 180-DAY TIME DEPOSIT ACCOUNT

B/ 15-DAY CALL ACCOUNT - AID TRUST FUND

C/ CURRENT CHECKING ACCOUNT

(C) THE FOLLOWING TABLE INDICATES THE CURRENT INTEREST RATES AMERICAN BANKS ARE OFFERING DEPOSITORS AT VARIOUS MATURITIES. (IN GENERAL, THESE RATES ARE THE SAME AS THAT PAID BY INDIAN BANKS.);

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| MATURITY                               | PERCENT PER ANNUM      |
|----------------------------------------|------------------------|
|                                        | EFFECTIVE JUNE 1, 1977 |
| UP TO 14 DAYS                          | NIL                    |
| 15-45 DAYS                             | 3.0                    |
| 46-90 DAYS                             | 3.5                    |
| 91 DAYS AND LESS THAN 6 MOSM (180 DAY) | 4.0                    |
| 6 MONTHS AND LESS THAN 9 MONTHS        | NOYQJMHM IHHUCCEW      |
| 9 MONTHS AND LESS THAN ONE YEAR        | 5.0                    |
| ONE YEAR AND LESS THAN 3 YEARS         | 6.0                    |
| 3 YEARS AND UP TO 5 YEARS              | 8.0                    |
| ABOVE 5 YEARS                          | 10.0                   |

NOTE: 1. THE REVISED NEW RATES EFFECTIVE JUNE 1, 1977 WILL ONLY APPLY TO NEW OR RENEWED DEPOSITS.

2. INTEREST IS PAID HALF YEARLY.

(D) COMMERCIAL BANK LENDING RATES HAVE LARGELY REMAINED UNCHANGED EXCEPT ON TERM LOANS TO INDUSTRY. THE NEW PRESCRIBED RATE BY THE RESERVE BANK OF INDIA FOR SUCH LOANS IS 12.5 PERCENT PER ANNUM COMPARED TO 14-15 PERCENT CHARGED PREVIOUSLY. FOLLOWING THE REDUCTION IN INTEREST RATES ON DEPOSITS, THERE HAS BEEN NO CHANGE IN THE RESERVE REQUIREMENTS WHICH CONTINUE TO BE 39 PERCENT OF THE DEMAND AND

TIME LIABILITIES. HOWEVER, THE COMPOUNDING OF 10 PERCENT OF INCREMENTAL DEPOSITS INTRODUCED AS AN ANTI-INFLATIONARY MEASURE SINCE JANUARY 14, 1977 COMPARED TO 5.5 PERCENT PREVIOUSLY. SINCE THE REDUCTION IN DEPOSIT RATES IS APPLICABLE ONLY TO NEW DEPOSITS, THE SPREAD BETWEEN THE COST OF MONEY AND THE LENDING RATES REMAINS LARGELY UNCHANGED. HOWEVER, IF THE PRESENT STRUCTURE OF INTEREST RATES ON DEPOSIT AND LENDING RATES CONTINUES, BANKS WILL STAND TO GAIN IN THE COMING YEARS THROUGH REDUCTION IN COST OF MONEY.

(E) WE DO NOT ANTICIPATE ANY MATERIAL EFFECT ON U.S. BANKS THROUGH THE EXTENSION IN PERIOD OF DEPOSITS FROM 180 DAYS TO ONE YEAR BY PAYING 6 PERCENT INTEREST ON U.S. DEPOSITS INSTEAD OF 5.5 PERCENT. ASSUMING NO CHANGE IN THEIR LENDING PATTERN, LIMITED OFFICIAL USE

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U.S. BANKS SHOULD BE ABLE TO MAINTAIN THEIR PROFITABILITY AT 1976 LEVEL. WE ALSO UNDERSTAND THAT THE US BANK LOANS ARE GENERALLY FOR A PERIOD OF LESS THAN 3 YEARS WHICH DO NOT FALL UNDER THE NEW CEILING RATE OF 12.5 PERCENT. HENCE, THE US BANKS SHOULD BE ABLE TO OPERATE AT A FAIR LEVEL OF PROFITS.

2. IN SUMMARY, THE FOLLOWING ACTIONS HAVE BEEN TAKEN: ONE OF THE CITIBANK DEPOSITS, THAT WAS MATURING ON JUNE 28 WAS CONVERTED TO A ONE YEAR DEPOSIT AS OF JULY 1. THE THREE OTHER CITIBANK 180 DAY DEPOSITS WILL BE EXTENDED TO ONE YEAR AS OF AUGUST 27, SEPTEMBER 24, AND NOVEMBER 24, 1977. BANK OF AMERICA HAS CONVERTED THE ACCOUNT WHICH HAD MATURED JUNE 4 TO ONE YEAR AS OF JULY 1. AMERICAN EXPRESS MOVED OUR ACCOUNT TO ONE YEAR AS OF JULY 1.

3. AMERICAN EXPRESS HAD EARLIER INDICATED THEIR UNHAPPINESS ABOUT OUR PLAN TO MOVE OUR MONEY FROM 180-DAY TO ONE YEAR DEPOSITS AND THEREFORE WE WERE NOT SURPRISED ABOUT THEIR REPRESENTATION TO THE TREASURY. WE DO NOT BELIEVE THAT OUR ACTION WILL ADVERSELY AFFECT PROFITABILITY OF THE AMERICAN BANKS AND BE COUNTER-PRODUCTIVE TO THE RBI'S INTENTION TO LOWER INTEREST RATES.

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